

**Tri County Area Schools
Sand Lake, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Tri County Area Schools

Sand Lake, Michigan

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June 30, 2006

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Tri County Area Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri County Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006 on our consideration of Tri County Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Tri County Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of Tri County Area Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Tri County Area Schools, a K-12 school district located in Montcalm County, Kent County, and Newaygo County Michigan, is in its fourth year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Tri County Area Schools' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tri County Area Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually, and the Special Revenue Funds, Debt Service Funds and Capital Project Funds collectively as other non-major governmental funds. The remaining statements, the Statement of Fiduciary Net Assets present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The district-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements.

Tri County Area Schools
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Financial Activities:

The recent good health of the District's finances can be credited to the following innovative approaches during a time of restricted state funding due to a weak economy and significant tax reductions at the state level:

- The continued funding of fund balance designation at the fund financial statement level for future compensated absences.
- Utilization of a total cost compensation approach for the negotiation of employee contracts with the District's six employee groups.
- The establishment of energy savings guidelines.
- Cautious usage of the District's financial and material resources.

Summary of Net Assets:

The following summarizes the net assets as of June 30, 2006 and 2005.

Condensed Statement of Net Assets
as of June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Assets		
Current Assets	\$ 7,046,356	\$ 5,961,363
Capital Assets	<u>14,644,042</u>	<u>15,202,022</u>
Total Assets	21,690,398	21,163,385
Liabilities		
Current Liabilities	2,492,486	2,404,293
Long-Term Liabilities	<u>10,605,712</u>	<u>11,407,615</u>
Total Liabilities	13,098,198	13,811,908
Net Assets		
Invested in capital assets, net of related debt	4,144,584	3,969,139
Restricted	363,119	364,568
Unrestricted	<u>4,084,497</u>	<u>3,017,770</u>
Total Net Assets	<u>\$ 8,592,200</u>	<u>\$ 7,351,477</u>

Tri County Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Analysis of Financial Position:

As detailed above, the District shows a positive total net asset value of \$8,592,200 for the fiscal year ended June 30, 2006. This statement has been affected by the following factors:

- Capital assets reduced \$577,980 due to a greater amount of depreciation of assets than capital outlay purchased.
- Retirement of bond and loan principal decreased the District's liabilities by \$733,425.
- Due to change in reporting of compensated absences, which do not require current resources, the change in net assets increased \$402,005.

Results of Operations:

For the fiscal year ended June 30, 2006 and 2005, the district-wide results of operations were:

Condensed Statement of Activities
Year Ended June 30, 2006 and 2005

	Governmental Activities 2006	Governmental Activities 2005
Revenues:		
Program Revenues		
Charges for Services	\$ 583,848	\$ 604,257
Operating Grants	1,882,171	1,916,018
General Revenues		
Property Taxes	2,809,165	3,011,588
State School Aid-unrestricted	14,287,652	13,613,670
Other	612,622	384,539
Total Revenues	20,175,458	19,530,072
Functions/Program Expenses:		
Instruction	11,339,871	10,892,418
Supporting services	5,567,616	5,690,806
Community services	28,852	53,400
Food service	690,823	683,577
Athletics	245,441	249,590
Interest on long-term debt	435,161	388,954
Payments to Other Districts	3,255	194,932
Other	8,392	76,339
Unallocated depreciation	615,324	664,849
Total Expenses	18,934,735	18,894,865
Increase(Decrease) in Net Assets	\$ 1,240,723	\$ 635,207

Tri County Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Analysis of Results of Operations:

During fiscal year ended June 30, 2006 the District's net assets increased by \$1,240,723. Several factors that helped cause the increase are discussed in the following sections.

A. Governmental Fund Operating Results

The District's revenues from governmental fund operations exceeded expenditures by \$663,929 for the fiscal year ended June 30, 2006. A majority of the assets were capitalized on the district-wide financial statements. Further discussion of the District's operating results is available in the section entitled "Results of 2005-2006 Operations" located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2005-06, district assets depreciated in the amount of \$615,324, causing a reduction in net assets.

C. Long-Term Debt Activities

The District had a net reduction in its long-term bonded debt obligation during 2005-2006 by making principal payments and an amortization of deferred costs amounting to \$733,425. Accrued compensated absences changed by \$402,005 due to change in governmental activities reporting of these costs.

Results of 2005-2006 Operations

During fiscal year ended June 30, 2006, the District net assets increased by \$1,240,723. A few additional significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Tri County Area Schools such as: salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Accounting Staff, Custodians, Maintenance Staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations exceeded expenditures by \$635,837 for the fiscal year ended June 30, 2006. The General Fund as of June 30, 2006, has a fund balance of \$3,749,296 or 21.37% of expenditures for the 2005-2006 fiscal year. Many of the savings made throughout the District are a result of efficient uses of the District's resources by all employees.

B. Debt Service Fund Operations

The Debt Service Funds consist of four separate debt funds as follows: 1999 Debt, 2003 Bond Refunding, 2005 Bond Refunding, and the Durant Debt Funds. The Debt Service Funds (other than the Durant Debt Fund which receives State Funds) are set up to collect taxes and pay annual debt payments. At June 30, 2006, the Debt Service Funds had \$441,494 in fund equity available for future bond payments.

The District had Durant resolution bonds and accrued compensated absences outstanding at June 30, 2006, of \$91,334 and \$962,113, respectively.

Tri County Area Schools
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The District has the following principal balance on bonded long-term debt obligations:

	Principal Balance <u>June 30, 2006</u>
1999 Debt Bonds	\$ 500,000
2003 Refunding Bonds	7,345,000
2005 Refunding Bonds	<u>2,760,000</u>
Total long-term bond obligations	<u>\$10,605,000</u>

See Note F for additional information related to long-term debt.

C. School Service Funds

The Tri County Area Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2005-2006 the Food Service Fund had revenues of \$711,129 and expenditures of \$706,340. The Food Service Fund is self-supporting and reimburses the General Fund for all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$80,462.

The Athletics Fund includes all costs for high school and middle school athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the Athletic Fund. In 2005-2006 the Athletics Fund had revenues of \$265,284 and expenditures of \$250,948. The Athletics Fund generated \$86,154 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$179,130 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$20,912.

D. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$557,980 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2005</u>	<u>Net Change</u>	<u>Balance June 30, 2006</u>
Capital assets	\$ 23,108,850	\$(152,725)	\$ 22,956,125
Less: accumulated depreciation	<u>(7,906,828)</u>	<u>(405,255)</u>	<u>(8,312,083)</u>
Net investment in capital outlay	<u>\$ 15,202,022</u>	<u>\$(557,980)</u>	<u>\$ 14,644,042</u>

Various buses and vehicles were disposed of during the 2005-06 year without replacement of buses during the fiscal year. See Note C for additional details related to Capital Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property valuation

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Tri County Area Schools foundation allowance was \$6,875 per student for the 2005-2006 school year. However due to the Headlee rollback the District received \$6,815.39 per General Education student.

C. Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 2,411.42 students. The District's enrollment has been stable for the prior school year's student count. The following summarizes fall student enrollments in the past five years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006	2,411	53
2004-2005	2,358	3
2003-2004	2,355	(10)
2002-2003	2,365	0
2001-2002	2,365	7

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 16.7244 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2005-2006 fiscal year was \$1,673,144. The non-homestead tax levied revenue increased by 5.1% over the prior year.

In May 2006, the District was successful in passing a Headlee Ballot Proposal which will have the effect of allowing the District to levy during the next year, the full 18 mill non-homestead millage for operations.

E. Debt Fund Property Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2005-2006 the District's debt millage levy was 3.4936 mills, which generated revenue of \$1,136,054.

Tri County Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Expenditures and Other Uses Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	17,445,960	17,941,770	17,543,513	(0.6%)	2.2%
2004-2005	18,640,379	17,682,600	17,420,785	7.0%	1.5%

General Fund Revenues and Other Sources, Budget vs. Actual

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual & Original Budget</u>	<u>Actual & Final Budget</u>
2005-2006	17,238,300	18,162,650	18,179,350	5.5%	0.09%
2004-2005	16,978,720	17,415,280	17,334,804	2.1%	(0.5%)

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Tri County Area Schools amends its budget periodically during the school year. The June 2006 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures - Original Budget	\$ 17,445,960	100.0
Total Expenditures - Final Budget	<u>17,941,770</u>	<u>102.8</u>
Decrease in Budget Expenditures	<u>\$ 495,810</u>	<u>2.8</u>

The District's actual expenditures were less than the final budget by \$398,257 or 2.2 percent.

Some of the significant changes in expenditure budgets for the year include:

- Changes in tax repayments due to unbilled repayments for numerous years from Newaygo County.
- Changes in staffing needs due to special education student needs.

Tri County Area Schools

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Revenue Change from Original to Final Budget:

		<u>Percent</u>
Total Revenues - Original Budget	\$ 17,238,300	100.0
Total Revenues - Final Budget	<u>18,162,650</u>	<u>105.4</u>
Increase in Budget Revenues	<u>\$ 924,350</u>	<u>5.4</u>

The District's final actual general fund revenues were greater than the final budget by \$16,700, a variance of 0.09% from the final budget.

The Final revenue budget reflects the following changes from the Original Budget.

- Local sources increased by \$83,780 due to increased revenues from interest income charges for service and private contributions.
- State aid was increased by \$780,810 due to increased student count and an unbudgeted increase in the pupil foundation allowance.
- Special Education revenue increased by \$130,537 from the county.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 75 percent to 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be similar to the estimates used in creating the 2006 fiscal year final budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact Tamera Powers, Business Manager, Tri County Area Schools, 94 Cherry Street, Sand Lake, Michigan 49343.

BASIC FINANCIAL STATEMENTS

Tri County Area Schools
STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,067,732
Accounts receivable	5,781
Taxes receivable	2,116
Due from other governmental units	2,863,255
Inventory	107,472
Total current assets	7,046,356
Noncurrent assets	
Capital assets not being depreciated	756,211
Capital assets, net of accumulated depreciation	13,887,831
Total noncurrent assets	14,644,042
TOTAL ASSETS	21,690,398
LIABILITIES	
Current liabilities	
Accounts payable	20,359
Accrued payroll	866,323
Accrued interest payable	65,493
Other accrued liabilities	639,110
Due to other governmental units	23,500
Deferred revenue	8,960
Current portion of compensated absences	110,899
Current portion of long-term debt	757,842
Total current liabilities	2,492,486
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	12,882
Noncurrent portion of compensated absences	851,214
Noncurrent portion of long-term debt	9,741,616
Total noncurrent liabilities	10,605,712
TOTAL LIABILITIES	13,098,198
NET ASSETS	
Invested in capital assets, net of related debt	4,144,584
Restricted for debt service	363,119
Unrestricted	4,084,497
TOTAL NET ASSETS	\$ 8,592,200

See accompanying notes to financial statements.

Tri County Area Schools
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Governmental Activities	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Governmental Activities
Functions/Programs				
Instruction	\$ 11,339,871	\$ 122,601	\$ 1,472,021	\$ (9,745,249)
Supporting services	5,567,616	27,464	15,209	(5,524,943)
Community services	28,852	25,287	-	(3,565)
Food services	690,823	322,438	384,079	15,694
Athletics	245,441	86,058	-	(159,383)
Interest on long-term debt	435,161	-	-	(435,161)
Other transactions	8,392	-	10,862	2,470
Payments to other districts	3,255	-	-	(3,255)
Unallocated depreciation	615,324	-	-	(615,324)
TOTAL EXPENSES	\$ 18,934,735	\$ 583,848	\$ 1,882,171	(16,468,716)
General Revenues				
Property taxes				2,809,165
State school aid - unrestricted				14,287,652
Special Education county allocation				320,237
Investment earnings				133,617
Miscellaneous				158,768
TOTAL GENERAL REVENUES				17,709,439
CHANGE IN NET ASSETS				1,240,723
Net assets, beginning of year				7,351,477
Net assets, end of year				\$ 8,592,200

See accompanying notes to financial statements

Tri County Area Schools
GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,712,127	\$ 859,305	\$ 3,571,432
Accounts receivable	5,525	256	5,781
Taxes receivable	1,794	322	2,116
Due from other funds	-	13,501	13,501
Due from other governmental units	2,858,649	4,606	2,863,255
Inventory	97,858	9,614	107,472
TOTAL ASSETS	<u><u>\$ 5,675,953</u></u>	<u><u>\$ 887,604</u></u>	<u><u>\$ 6,563,557</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 20,359	\$ -	\$ 20,359
Accrued payroll	866,323	-	866,323
Other accrued liabilities	639,110	-	639,110
Due to other governmental units	23,500	-	23,500
Due to other funds	374,151	78,752	452,903
Deferred revenue	3,214	5,746	8,960
TOTAL LIABILITIES	1,926,657	84,498	2,011,155
FUND BALANCES			
Reserved for			
Inventory	97,858	9,614	107,472
Debt service	-	441,494	441,494
Unreserved			
Designated for compensated absences	26,411	-	26,411
Undesignated, reported in:			
General fund	3,625,027	-	3,625,027
Special revenue funds	-	91,760	91,760
Capital project funds	-	260,238	260,238
TOTAL FUND BALANCES	<u><u>3,749,296</u></u>	<u><u>803,106</u></u>	<u><u>4,552,402</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 5,675,953</u></u>	<u><u>\$ 887,604</u></u>	<u><u>\$ 6,563,557</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 4,552,402

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 22,956,125	
Accumulated depreciation is	<u>(8,312,083)</u>	14,644,042

Governmental funds report the difference between the carrying amount of the defeased debt
and its reacquisition price when debt is first issued, whereas these amounts are deferred and
amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt	196,876
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Long-term liabilities that are not included in a proprietary fund at the fund level and are
not due and payable in the current period are not reported as liabilities in the funds.

The applicable long-term liabilities at year-end consist of:

Bonds and loans payable	10,696,334	
Accrued interest payable	78,375	
Applicable portion of compensated absences	<u>26,411</u>	(10,801,120)

Net assets of governmental activities \$ 8,592,200

See accompanying notes to financial statements.

Tri County Area Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 1,979,937	\$ 1,581,138	\$ 3,561,075
State sources	15,338,055	44,946	15,383,001
Federal sources	436,826	349,995	786,821
OTHER FINANCING SOURCES			
Transfers from other funds	-	179,130	179,130
County special education allocation	320,237	-	320,237
Other transactions	104,295	-	104,295
TOTAL REVENUES AND OTHER FINANCING SOURCES	18,179,350	2,155,209	20,334,559
EXPENDITURES			
Current			
Instruction	11,573,814	-	11,573,814
Supporting services	5,712,252	-	5,712,252
Community services	29,495	-	29,495
Building improvements services	37,175	-	37,175
Food service activities	-	706,340	706,340
Athletic activities	-	250,948	250,948
Capital outlay	-	1,763	1,763
Debt service			
Principal retirement	-	747,487	747,487
Interest, fiscal and other charges	-	420,579	420,579
OTHER FINANCING USES			
Other transactions	8,392	-	8,392
Transfers to other funds	179,130	-	179,130
Payments to other districts	3,255	-	3,255
TOTAL EXPENDITURES AND OTHER FINANCING USES	17,543,513	2,127,117	19,670,630
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	635,837	28,092	663,929
Fund balances, beginning of year	3,113,459	775,014	3,888,473
Fund balances, end of year	\$ 3,749,296	\$ 803,106	\$ 4,552,402

See accompanying notes to financial statements.

Tri County Area Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 663,929

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 57,344	
Depreciation expense	<u>(615,324)</u>	
Excess of depreciation expense over capital outlay		(557,980)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Net expense from governmental activities accounted for in Internal Service Funds	(136)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Bond and loan principal retirement	747,487	
Amortization of defeased debt	<u>(14,062)</u>	
		733,425

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(520)	
Change in governmental activities reporting of compensated absences	<u>402,005</u>	
		<u>401,485</u>

Change in net assets of governmental activities \$ 1,240,723

See accompanying notes to financial statements.

Tri County Area Schools
Proprietary Fund - Internal Service Fund

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities Retirement Payout Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 496,300
Due from other funds	<u>439,402</u>
TOTAL ASSETS	935,702
LIABILITIES	
Current liabilities	
Compensated absences	110,899
Noncurrent liabilities	
Compensated absences	<u>824,803</u>
TOTAL LIABILITIES	<u>935,702</u>
NET ASSETS	
Unrestricted	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Proprietary Fund - Internal Service Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS

Year Ended June 30, 2006

	Governmental Activities Retirement Payout Fund
OPERATING REVENUES	\$ -
OPERATING EXPENSES	
Benefits payout	<u>20,165</u>
OPERATING LOSS	(20,165)
NONOPERATING REVENUES	
Interest revenue	<u>20,029</u>
CHANGE IN NET ASSETS	(136)
Net assets, beginning of year	<u>136</u>
Net assets, end of year	<u><u>\$ -0-</u></u>

See accompanying notes to financial statements.

Tri County Area Schools
Proprietary Fund - Internal Service Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	<u>Governmental Activities Retirement Payout Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid to retirees	\$ (108,565)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	<u>20,029</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,536)
Cash and cash equivalents, beginning of year	<u>584,836</u>
Cash and cash equivalents, end of year	<u><u>\$ 496,300</u></u>
Reconciliation of operating (loss) to net cash used by operating activities	
Operating (loss)	\$ (20,165)
Adjustments to reconcile operating (loss) to cash used by operating activities	
(Increase) in due from other funds	(439,402)
Increase in compensated absences	<u>351,002</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (108,565)</u></u>

See accompanying notes to financial statements.

Tri County Area Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Fund
ASSETS	
Cash	<u>\$ 149,348</u>
LIABILITIES	
Due to student groups	<u>\$ 149,348</u>

See accompanying notes to financial statements.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Tri County Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Tri County Area Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

3. Basis of Accounting

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 26, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of office and transportation supplies. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2006 to be paid in July and August 2006. Of the total amount of \$2,863,255 due from other governmental units, \$2,769,104 consists of State Aid and the remaining \$94,151 from other governmental grants.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**9. Capital Assets**

Capital assets include land, buildings and improvements, furniture and equipment, and buses and other and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 except for new computers, printers, data projectors and televisions which have no cost threshold and all new classrooms (recorded at total content cost) and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Buses and other vehicles	8 years
Furniture and equipment	5 - 20 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the Internal Service (Retirement Payout) Fund and in the district-wide financial statements. The liability for accumulated vested vacation amounts are recorded as a liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$16.7244 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$3.4936 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payment made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

16. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

17. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depositary Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, the carrying amount of the District's deposits was \$4,217,080 and the bank balance was \$4,542,345, of which \$419,808 was covered by federal depositary insurance. The balance of \$4,122,537 was uninsured and uncollateralized.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer broker or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2006, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 4,067,732</u>	<u>\$ 149,348</u>	<u>\$ 4,217,080</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated				
Land	\$ 756,211	\$ -	\$ -	\$ 756,211
Capital assets being depreciated				
Buildings and improvements	19,529,748	5,176	-	19,534,924
Buses and other vehicles	1,639,223	20,668	(210,069)	1,449,822
Furniture and equipment	<u>1,183,668</u>	<u>31,500</u>	<u>-</u>	<u>1,215,168</u>
Subtotal	22,352,639	57,344	(210,069)	22,199,914
Less accumulated depreciation for:				
Buildings and improvements	(6,097,778)	(416,864)	-	(6,514,642)
Buses and other vehicles	(1,167,338)	(116,757)	210,069	(1,074,026)
Furniture and equipment	<u>(641,712)</u>	<u>(81,703)</u>	<u>-</u>	<u>(723,415)</u>
Subtotal	<u>(7,906,828)</u>	<u>(615,324)</u>	<u>210,069</u>	<u>(8,312,083)</u>
Net capital assets being depreciated	<u>14,445,811</u>	<u>(557,980)</u>	<u>-0-</u>	<u>13,887,831</u>
Capital assets, net	<u>\$15,202,022</u>	<u>\$(557,980)</u>	<u>\$ -0-</u>	<u>\$14,644,042</u>

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

Due to nonmajor governmental funds from:	
General fund	<u>\$ 13,501</u>
Due to internal service fund from:	
General fund	\$ 360,650
Nonmajor governmental funds	<u>78,752</u>
	<u>\$ 439,402</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General fund	<u>\$ 179,130</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Bonded Debt	\$11,443,821	\$ -	\$ 747,487	\$10,696,334	\$ 757,842
Compensated Absences	803,606	-	9,412	794,194	-
Post-Employment Compensated Absences	<u>209,510</u>	<u>-</u>	<u>41,591</u>	<u>167,919</u>	<u>110,899</u>
	12,456,937	-	798,490	11,658,447	868,741
Less: deferred amounts on refunding	<u>210,938</u>	<u>-</u>	<u>14,062</u>	<u>196,876</u>	<u>-</u>
	<u>\$12,245,999</u>	<u>\$ -0-</u>	<u>\$ 784,428</u>	<u>\$11,461,571</u>	<u>\$ 868,741</u>

Tri County Area Schools
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

Advanced Refunding - Prior

On April 19, 2005 the District defeased a portion of the 1999 School Building and Site General Obligation Bonds, which are due and payable May 1, 2010 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$2,770,000 to fund escrow amounts, pay the cost of issuance of the refunding bonds, and to pay a portion of the remaining balances of the 1999 School Building and Site General Obligation Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2010 through May 1, 2020 for 1999 School Building and Site General Obligation Bonds in the amount of \$2,650,000 are considered defeased.

On March 18, 2003 the District defeased the portion of the 1993 School Building and Site Bonds which are due and payable May 1, 2003 through May 1, 2020. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2003 Refunding Bonds in the amount of \$9,140,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2007 through May 1, 2020 for the 1995 School Building and Site Bonds in the amount of \$7,350,000 are considered defeased.

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2006:

\$3,680,000 School Building and Site General Obligation Bonds dated June 17, 1999, due in annual installments ranging from \$140,000 to \$190,000 through May 1, 2009 with interest ranging from 4.55 to 4.70 percent, payable semi-annually.	\$ 500,000
\$9,140,000 Refunding Bonds dated March 18, 2003, due in annual installments ranging from \$325,000 to \$600,000 through May 1, 2020 with interest ranging from 3.00 to 4.15 percent, payable semi-annually.	7,345,000
\$2,770,000 Refunding Bonds dated April 19, 2005, due in annual installments ranging from \$10,000 to \$265,000 through May 1, 2020 with interest ranging from 3.00 to 4.15 percent, payable semi-annually.	<u>2,760,000</u>
	10,605,000

Resolution Bonds

\$154,683 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$7,842 to \$37,384 with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.	<u>91,334</u>
	<u>\$10,696,334</u>

Compensated Absences - These amounts consist of severance pay amounts, unused vacation, and amounts agreed to be paid as post-employment compensated absences per various agreements. Severance pay is the largest component of compensated absences and is detailed below. The other components are based on other agreements and are detailed there.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

Severance Pay - In recognition of services to the District, a severance payment is made to eligible teachers and administrators with at least fifteen (15) years of service, and to eligible support staff with at least 5 years of continuous service according to their respective employment contracts as follows:

Teachers and Administrators hired before 1987

Eligible teachers and administrators will be paid one-half of the unused days at a daily rate of pay as of the day of retirement with no limit.

Teachers and Administrators hired after 1987

Eligible teachers and administrators will be paid up to a maximum of 30 years at a rate of \$100 per year of service.

Support staff

Eligible employees will be paid one-half of unused hours up to a maximum of one hundred and twenty days of accumulated sick leave at the hourly rate of pay upon retirement.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006 for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2006, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 866,897	\$ 24,525	\$ 891,422
Payroll taxes	<u>68,815</u>	<u>1,876</u>	<u>70,691</u>
	<u>\$ 935,712</u>	<u>\$ 26,401</u>	<u>\$ 962,113</u>

The entire liability, except for \$26,411 related to vacation payable, is recorded as a liability in the Internal Service Fund.

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 7,842	\$ 3,019	\$ 750,000	\$ 393,225
2008	8,217	2,645	770,000	368,555
2009	8,609	2,254	780,000	342,634
2010	9,018	1,844	805,000	314,537
2011	37,384	13,876	805,000	288,337
2012-2016	20,264	1,459	3,880,000	1,014,687
2017-2020	<u>-</u>	<u>-</u>	<u>2,815,000</u>	<u>278,203</u>
	<u>\$ 91,334</u>	<u>\$ 25,097</u>	<u>\$10,605,000</u>	<u>\$ 3,000,178</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE F: LONG-TERM DEBT - CONTINUED

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2005, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006 was \$10,228,622 of which \$8,163,506 was for members who have elected the MIP option; the District's total payroll was \$10,494,549.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation for all wages to the Plan. For the period of October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006 and the previous two (2) years is as follows:

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2006	\$ 319,221	\$ 1,638,091	\$ 1,957,312
2005	325,497	1,526,321	1,851,818
2004	330,074	1,393,964	1,724,038

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.5
2004	4.0	13.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

General Fund	
Reserved for inventory	\$ 97,858
Nonmajor governmental funds	
Food service	
Reserved for inventory	9,614
1999 Debt	
Reserved for debt service	49,654
2003 Debt Refunding	
Reserved for debt service	321,682
2005 Bond Refunding	
Reserved for debt service	<u>70,158</u>
	<u>441,494</u>
	<u>\$ 548,966</u>

The following are the fund balance designations as of June 30, 2006:

General Fund	
Designated for compensated absences	<u>\$ 26,411</u>

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2006:

PRIMARY GOVERNMENT

Governmental activities

Restricted for

Debt service

\$ 363,119

NOTE J: FLEXIBLE BENEFITS PLAN

In December 2002 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all eligible employees, who meet the eligibility requirements as set by the plan, permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments, medical expense reimbursement benefits, or dependent care benefits. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by Tri County Area Schools.

NOTE K: RISK MANAGEMENT

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, boiler and machinery, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. The District has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on claims filed against the pool nor do they have any right to dividends.

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Tri County Area Schools, a nonplaintiff District, was awarded \$309,366 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

Tri County Area Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE L: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE M: LINE OF CREDIT

Tri County Area Schools has a line credit agreement with Independent Bank to cover potential cash flow shortages. The line of credit limit is for \$1,500,000 with interest of an annual rate of 3.35%. As of June 30, 2006, no liability existed and no funds were drawn on the line during the current year.

REQUIRED SUPPLEMENTARY INFORMATION

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 1,895,290	\$ 1,979,070	\$ 1,979,937	\$ 867
State sources	14,564,950	15,345,760	15,338,055	(7,705)
Federal sources	526,400	412,480	436,826	24,346
OTHER FINANCING SOURCES				
County special education allocation	189,700	324,330	320,237	(4,093)
Other transactions	61,960	101,010	104,295	3,285
TOTAL REVENUES AND OTHER FINANCING SOURCES	17,238,300	18,162,650	18,179,350	16,700
EXPENDITURES				
Current				
Instruction				
Basic needs	9,227,610	9,815,420	9,772,993	42,427
Added needs	1,921,840	1,819,130	1,800,821	18,309
Total instruction	11,149,450	11,634,550	11,573,814	60,736
Supporting services				
Pupil	908,200	930,440	922,446	7,994
Instructional staff	510,480	538,590	515,951	22,639
General administration	268,910	279,490	257,287	22,203
School administration	1,110,270	1,090,060	1,069,160	20,900
Business services	358,370	351,990	311,403	40,587
Pupil transportation	951,810	1,034,070	994,854	39,216
Operations and maintenance	1,628,080	1,783,570	1,641,151	142,419
Total supporting services	5,736,120	6,008,210	5,712,252	295,958
Community services	57,550	36,180	29,495	6,685
Building improvements services	55,000	37,200	37,175	25

Tri County Area Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers to other funds	\$ 279,340	\$ 179,130	\$ 179,130	\$ -0-
Payments to other districts	125,500	3,500	3,255	245
Other transactions	43,000	43,000	8,392	34,608
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>17,445,960</u>	<u>17,941,770</u>	<u>17,543,513</u>	<u>398,257</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(207,660)	220,880	635,837	414,957
Fund balance, beginning of year	<u>3,113,459</u>	<u>3,113,459</u>	<u>3,113,459</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 2,905,799</u>	<u>\$ 3,334,339</u>	<u>\$ 3,749,296</u>	<u>\$ 414,957</u>

Tri County Area Schools

General Fund

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES -
BUDGET AND ACTUAL

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
LOCAL SOURCES				
Property taxes	\$ 1,680,980	\$ 1,672,990	\$ 1,673,144	\$ 154
Tuition	148,780	130,330	130,273	(57)
Transportation fees	20,500	19,310	19,792	482
Interest	20,000	76,860	79,875	3,015
Rentals	2,000	2,090	2,093	3
Charges for services	20,000	24,920	25,287	367
Contributions from private sources	2,000	17,200	17,200	-0-
Other local revenue	1,030	35,370	32,273	(3,097)
TOTAL LOCAL SOURCES	1,895,290	1,979,070	1,979,937	867
STATE SOURCES				
State aid unrestricted	13,532,440	14,292,560	14,287,652	(4,908)
State aid restricted	1,031,410	1,051,390	1,048,578	(2,812)
State aid restricted through local district	1,100	1,810	1,825	15
TOTAL STATE SOURCES	14,564,950	15,345,760	15,338,055	(7,705)
FEDERAL SOURCES				
Federal received through the State	521,400	406,940	429,351	22,411
Federal received through other districts	5,000	5,540	7,475	1,935
TOTAL FEDERAL SOURCES	526,400	412,480	436,826	24,346
OTHER FINANCING SOURCES				
County special education allocation	189,700	324,330	320,237	(4,093)
Other transactions	61,960	101,010	104,295	3,285
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 17,238,300	\$ 18,162,650	\$ 18,179,350	\$ 16,700

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
INSTRUCTION				
Basic needs				
Elementary				
Salaries	\$ 3,008,460	\$ 3,184,370	\$ 3,170,307	\$ 14,063
Benefits	1,495,060	1,514,210	1,508,284	5,926
Purchased services	5,300	55,660	53,704	1,956
Supplies, materials, and other	134,930	126,640	122,646	3,994
Capital outlay	1,670	6,170	10,204	(4,034)
Total elementary	4,645,420	4,887,050	4,865,145	21,905
Middle school				
Salaries	1,422,260	1,362,360	1,360,960	1,400
Benefits	754,040	736,080	735,536	544
Purchased services	-	48,620	48,581	39
Supplies, materials, and other	51,970	44,980	46,956	(1,976)
Capital outlay	700	13,760	8,128	5,632
Total middle school	2,228,970	2,205,800	2,200,161	5,639
High school				
Salaries	1,370,150	1,648,810	1,646,420	2,390
Benefits	723,160	728,840	722,163	6,677
Purchased services	28,700	55,400	53,009	2,391
Supplies, materials, and other	71,000	124,200	122,125	2,075
Capital outlay	6,880	12,200	11,916	284
Total high school	2,199,890	2,569,450	2,555,633	13,817
Pre-school instruction				
Salaries	98,220	93,500	93,384	116
Benefits	48,570	56,670	55,833	837
Supplies, materials, and other	2,610	1,860	1,845	15
Capital outlay	930	150	103	47
Total pre-school instruction	150,330	152,180	151,165	1,015
Summer school				
Salaries	2,500	550	544	6
Benefits	500	160	127	33
Supplies, materials, and other	-	230	218	12
Total summer school	3,000	940	889	51
Total basic needs	9,227,610	9,815,420	9,772,993	42,427

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
INSTRUCTION - CONTINUED				
Added needs				
Special education				
Salaries	\$ 858,870	\$ 808,540	\$ 807,506	\$ 1,034
Benefits	431,260	423,670	418,028	5,642
Purchased services	810	39,210	36,678	2,532
Supplies, materials, and other	6,150	6,860	5,882	978
Total special education	1,297,090	1,278,280	1,268,094	10,186
Compensatory education				
Salaries	423,680	352,670	351,768	902
Benefits	196,120	177,610	174,185	3,425
Purchased services	-	1,800	1,170	630
Supplies, materials, and other	4,850	8,660	5,497	3,163
Capital outlay	100	110	107	3
Total compensatory education	624,750	540,850	532,727	8,123
Total added needs	1,921,840	1,819,130	1,800,821	18,309
TOTAL INSTRUCTION	11,149,450	11,634,550	11,573,814	60,736
SUPPORTING SERVICES				
Pupil services				
Guidance services				
Salaries	182,900	177,000	175,601	1,399
Benefits	76,310	88,410	87,521	889
Total guidance services	259,210	265,410	263,122	2,288
Health services				
Salaries	20,950	19,500	19,095	405
Benefits	16,060	4,850	4,576	274
Supplies, materials, and other	500	530	520	10
Total health services	37,510	24,880	24,191	689

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
Pupil services - continued				
Social services				
Salaries	\$ 159,370	\$ 160,470	\$ 160,425	\$ 45
Benefits	94,060	84,000	83,570	430
Purchased services	400	470	459	11
Supplies, materials, and other	790	4,740	4,061	679
Total social services	254,620	249,680	248,515	1,165
Psychologist services				
Salaries	59,180	62,150	61,838	312
Benefits	29,490	29,650	29,131	519
Purchased services	900	1,000	796	204
Supplies, materials, and other	300	200	-	200
Total psychologist service	89,870	93,000	91,765	1,235
Speech pathology				
Salaries	122,370	145,740	145,348	392
Benefits	63,900	74,130	73,630	500
Purchased services	500	680	622	58
Supplies, materials, and other	1,230	1,050	419	631
Total speech pathology	188,000	221,600	220,019	1,581
Special education consultant				
Salaries	5,050	5,090	5,056	34
Benefits	2,780	2,840	2,800	40
Total special education consultant	7,830	7,930	7,856	74
Monitors				
Salaries	51,900	49,510	48,779	731
Benefits	19,260	18,430	18,199	231
Total monitors	71,160	67,940	66,978	962
Total pupil services	908,200	930,440	922,446	7,994

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
Instructional staff				
Improvement of instruction				
Salaries	\$ 20,790	\$ 7,410	\$ 4,761	\$ 2,649
Benefits	-	1,990	1,069	921
Purchased services	-	25,530	20,623	4,907
Supplies, materials, and other	-	1,420	390	1,030
Total improvement of instruction	20,790	36,350	26,843	9,507
Library				
Salaries	122,700	123,530	123,528	2
Benefits	52,600	53,530	48,675	4,855
Supplies, materials, and other	35,930	38,320	37,607	713
Capital outlay	8,890	20,670	20,661	9
Total library	220,120	236,050	230,471	5,579
Technology				
Salaries	52,730	52,730	52,722	8
Benefits	24,230	25,410	25,305	105
Purchased services	55,370	59,890	56,015	3,875
Supplies, materials, and other	1,360	950	917	33
Capital outlay	13,760	2,110	2,103	7
Total technology	147,450	141,090	137,062	4,028
Supervision and direction of instructional staff				
Salaries	85,360	86,070	86,048	22
Benefits	32,980	32,390	31,152	1,238
Purchased services	2,960	2,960	2,676	284
Supplies, materials, and other	820	3,680	1,699	1,981
Total supervision and direction of instructional staff	122,120	125,100	121,575	3,525
Total instructional staff	510,480	538,590	515,951	22,639

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
General administration				
Board of education				
Salaries	\$ 3,000	\$ 4,000	\$ 3,960	\$ 40
Benefits	10	10	7	3
Purchased services	57,500	59,500	46,395	13,105
Supplies, materials, and other	12,200	12,200	10,294	1,906
Capital outlay	3,000	3,000	2,775	225
Total board of education	75,710	78,710	63,431	15,279
Executive administration				
Salaries	99,020	105,150	105,015	135
Benefits	36,240	39,010	38,767	243
Purchased services	53,500	52,180	46,883	5,297
Supplies, materials, and other	4,200	4,200	3,061	1,139
Capital outlay	240	240	130	110
Total executive administration	193,200	200,780	193,856	6,924
Total general administration	268,910	279,490	257,287	22,203
School administration				
Salaries	757,840	761,150	752,285	8,865
Benefits	332,800	308,300	303,408	4,892
Purchased services	15,000	15,460	9,442	6,018
Supplies, materials, and other	4,630	5,150	4,025	1,125
Total school administration	1,110,270	1,090,060	1,069,160	20,900
Business services				
Fiscal services				
Salaries	144,930	145,680	145,216	464
Benefits	73,040	70,810	68,322	2,488
Purchased services	4,300	5,300	4,492	808
Supplies, materials, and other	6,500	6,460	3,948	2,512
Capital outlay	-	2,620	2,620	-0-
Total fiscal services	228,770	230,870	224,598	6,272

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
SUPPORTING SERVICES - CONTINUED				
Business services - continued				
Other fiscal services				
Purchased services	\$ 67,800	\$ 68,320	\$ 68,306	\$ 14
Other	61,800	52,800	18,499	34,301
Total other fiscal services	129,600	121,120	86,805	34,315
Total business services	358,370	351,990	311,403	40,587
Pupil transportation				
Salaries	491,900	486,690	472,500	14,190
Benefits	309,440	305,210	298,144	7,066
Purchased services	18,280	17,660	16,775	885
Supplies, materials, and other	132,190	224,510	207,435	17,075
Total pupil transportation	951,810	1,034,070	994,854	39,216
Operations and maintenance				
Salaries	599,000	592,600	587,101	5,499
Benefits	371,350	371,150	366,047	5,103
Purchased services	49,100	54,700	45,095	9,605
Supplies, materials, and other	583,630	721,620	612,685	108,935
Capital outlay	25,000	43,500	30,223	13,277
Total operations and maintenance	1,628,080	1,783,570	1,641,151	142,419
TOTAL SUPPORTING SERVICES	5,736,120	6,008,210	5,712,252	295,958
COMMUNITY SERVICES				
Child care				
Salaries	16,600	16,600	15,768	832
Benefits	4,060	4,060	3,802	258
Supplies, materials, and other	1,200	1,200	953	247
Total child care	21,860	21,860	20,523	1,337

Tri County Area Schools

General Fund

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES -
BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
COMMUNITY SERVICES - CONTINUED				
Other community services				
Salaries	\$ 25,000	\$ 7,800	\$ 5,849	\$ 1,951
Benefits	6,090	1,980	1,443	537
Purchased services	1,000	940	936	4
Supplies, materials, and other	3,600	3,600	744	2,856
Total other community services	35,690	14,320	8,972	5,348
TOTAL COMMUNITY SERVICES	57,550	36,180	29,495	6,685
BUILDING IMPROVEMENT SERVICES				
Capital outlay	55,000	37,200	37,175	25
OTHER FINANCING USES				
Transfers to other funds	279,340	179,130	179,130	-0-
Payments to other districts	125,500	3,500	3,255	245
Other	43,000	43,000	8,392	34,608
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 17,445,960</u>	<u>\$ 17,941,770</u>	<u>\$ 17,543,513</u>	<u>\$ 398,257</u>

OTHER SUPPLEMENTARY INFORMATION

Tri County Area Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
ASSETS			
Cash and cash equivalents	\$ 150,178	\$ 7,411	\$ 49,652
Accounts receivable	256	-	-
Taxes receivable	-	-	91
Due from other funds	-	13,501	-
Due from other governmental units	4,606	-	-
Inventory	9,614	-	-
TOTAL ASSETS	\$ 164,654	\$ 20,912	\$ 49,743
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred revenue	\$ 5,440	\$ -	\$ 89
Due to other funds	78,752	-	-
TOTAL LIABILITIES	84,192	-0-	89
FUND BALANCES			
Reserved for			
Inventory	9,614	-	-
Debt service	-	-	49,654
Unreserved			
Undesignated, reported in:			
Special revenue funds	70,848	20,912	-
Capital project funds	-	-	-
TOTAL FUND BALANCES	80,462	20,912	49,654
TOTAL LIABILITIES AND FUND BALANCES	\$ 164,654	\$ 20,912	\$ 49,743

2003 Bond Refunding	Service 2005 Bond Refunding	Durant Debt Service	Capital Projects Capital Projects	Total Nonmajor Governmental Funds
\$ 321,670	\$ 70,156	\$ -	\$ 260,238	\$ 859,305
-	-	-	-	256
229	2	-	-	322
-	-	-	-	13,501
-	-	-	-	4,606
-	-	-	-	9,614
<u>\$ 321,899</u>	<u>\$ 70,158</u>	<u>\$ -0-</u>	<u>\$ 260,238</u>	<u>\$ 887,604</u>
\$ 217	\$ -	\$ -	\$ -	\$ 5,746
-	-	-	-	78,752
217	-0-	-0-	-0-	84,498
-	-	-	-	9,614
321,682	70,158	-	-	441,494
-	-	-	-	91,760
-	-	-	260,238	260,238
321,682	70,158	-0-	260,238	803,106
<u>\$ 321,899</u>	<u>\$ 70,158</u>	<u>\$ -0-</u>	<u>\$ 260,238</u>	<u>\$ 887,604</u>

Tri County Area Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special Revenue		Debt
	Food Service	Athletics	1999 Debt
REVENUES			
Local sources	\$ 327,050	\$ 86,154	\$ 155,715
State sources	34,084	-	-
Federal sources	349,995	-	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	179,130	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	711,129	265,284	155,715
EXPENDITURES			
Current			
Food service activities	706,340	-	-
Athletic activities	-	250,948	-
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	115,000
Interest, fiscal and other charges	-	-	28,866
TOTAL EXPENDITURES	706,340	250,948	143,866
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	4,789	14,336	11,849
Fund balances, beginning of year	75,673	6,576	37,805
Fund balances, end of year	\$ 80,462	\$ 20,912	\$ 49,654

2003 Bond Refunding	Service 2005 Bond Refunding	Durant Debt Service	Capital Projects Capital Projects	Total Nonmajor Governmental Funds
\$ 868,016	\$ 132,544	\$ -	\$ 11,659	\$ 1,581,138
-	-	10,862	-	44,946
-	-	-	-	349,995
-	-	-	-	179,130
868,016	132,544	10,862	11,659	2,155,209
-	-	-	-	706,340
-	-	-	-	250,948
-	-	-	1,763	1,763
615,000	10,000	7,487	-	747,487
275,232	113,106	3,375	-	420,579
890,232	123,106	10,862	1,763	2,127,117
(22,216)	9,438	-0-	9,896	28,092
343,898	60,720	-	250,342	775,014
\$ 321,682	\$ 70,158	\$ -0-	\$ 260,238	\$ 803,106

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REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2006, which collectively comprise Tri County Area Schools' basic financial statements and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri County Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri County Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration and Board of Education of Tri County Area Schools, the federal awarding agencies, and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Tri County Area Schools
SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)

June 30, 2006

Tri County Area Schools

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Tri County Area Schools
Sand Lake, Michigan

Compliance

We have audited the compliance of Tri County Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2006. Tri County Area Schools' major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs are the responsibility of Tri County Area Schools' management. Our responsibility is to express an opinion on Tri County Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Tri County Area Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Tri County Area Schools' compliance with those requirements.

In our opinion, Tri County Area Schools complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending June 30, 2006.

Internal Control Over Compliance

The management of Tri County Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Tri County Area Schools' internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Tri County Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Tri County Area Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Tri County Area Schools, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I	84.010 ^(e)		
2005-06 Regular - Part A		0515300506	\$ 11,269
2005-06 Regular - Part A		0615300506	314,836
2004-05 Carryover - Part A		0415300405	4,132
2004-05 Carryover - Part A		0515300405	<u>343,632</u>
			673,869
Title V	84.298		
2004-05		0502500405	1,427
Technology Literacy Challenge Grants	84.318		
2005-06 Ed Tech - Formula Grant		0642900506	5,873
2004-05 Ed Tech - Formula Grant		0542900405	<u>7,293</u>
			13,166
Improving Teacher Quality	84.367		
2005-06		0505200506	14,613
2005-06		0605200506	120,330
2004-05		0505200405	<u>107,094</u>
			242,037
Passed Through State Department of Education and Kent ISD			
Drug-Free Program	84.186		
2005-06		N/A	<u>7,475</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			937,974

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ -	\$ -	\$ 11,269	\$ 11,269	\$ -0-
-	-	225,112	279,035	53,923
4,132	737	737	-	-0-
<u>326,676</u>	<u>71,159</u>	<u>88,115</u>	<u>16,956</u>	<u>-0-</u>
330,808	71,896	325,233	307,260	53,923
1,427	1,427	1,427	-	-0-
-	-	4,398	6,028	1,630
<u>7,293</u>	<u>510</u>	<u>510</u>	<u>-</u>	<u>-0-</u>
7,293	510	4,908	6,028	1,630
-	-	14,613	14,613	-0-
-	-	62,293	93,716	31,423
<u>107,094</u>	<u>27,362</u>	<u>27,362</u>	<u>-</u>	<u>-0-</u>
107,094	27,362	104,268	108,329	31,423
-	-	301	7,475	7,174
<u>446,622</u>	<u>101,195</u>	<u>436,137</u>	<u>429,092</u>	<u>94,150</u>

Tri County Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Department of State Police			
2003 State Homeland Security Grant Program	97.004	N/A	\$ 8,004
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553 (e)(f)		
2005-06		061970	64,473
2004-05		051970	<u>68,701</u>
			133,174
National School Lunch Program	10.555 (e)(f)		
2005-06		061950, 061960	210,496
2004-05		051950, 051960	<u>224,796</u>
			435,292
Food Donation (c)	10.550		
Entitlement commodities		59080	36,524
Bonus commodities		59080	<u>1,976</u>
			<u>38,500</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>606,966</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,552,944</u>

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ -	\$ -	\$ 7,734	\$ 7,734	\$ -0-
-	-	64,473	64,473	-0-
61,608	-	7,093	7,093	-0-
61,608	-0-	71,566	71,566	-0-
-	-	210,496	210,496	-0-
195,363	-	29,433	29,433	-0-
195,363	-0-	239,929	239,929	-0-
-	-	36,524	36,524 ^(a)	-0-
-	-	1,976	1,976 ^(a)	-0-
-0-	-0-	38,500	38,500	-0-
256,971	-0-	349,995	349,995	-0-
<u>\$ 703,593</u>	<u>\$ 101,195</u>	<u>\$ 793,866</u> (d)	<u>\$ 786,821</u> ^(b) (g)	<u>\$ 94,150</u>

Tri County Area Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Tri County Area Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Tri County Area Schools
Sand Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregated remaining fund information of Tri County Area Schools, Michigan as of and for the year ended June 30, 2006, and have issued our report thereon dated July 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri County Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education and management of Tri County Area Schools, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 19, 2006

Tri County Area Schools

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major programs tested to cover 50 percent of the total Federal expenditures was the Title I (CFDA 84.010); and the Nutritional Cluster (CFDA 10.553 and 10.555) programs. Total Federal expenditures for the year ended June 30, 2006 for the major programs were \$618,755 which is approximately 79 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Tri County Area Schools did not qualified as a low-risk auditee for the year ended June 30, 2006.

The District had two (2) Type A programs, the Title I (CFDA 84.010; \$307,260) program and the Nutritional Cluster (CFDA 10.553 and 10.555; \$311,495). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Tri County Area Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.